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C O N F I D E N T I A L SECTION 01 OF 06 ACCRA 000658

SIPDIS

CDR USEUCOM FOR GEN WALD/POLAD SNELL FROM AMBASSADOR YATES
TREASURY FOR ALEX SEVERENS
USTDA FOR BRYCE TERNET
MILLENNIUM CHALLENGE CORP. FOR ROD NORMAN

E.O. 12958: DECL: 03/30/2015

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SUBJECT: GHANA'S PRIORITIES AND CHALLENGES IN THE NEXT FOUR YEARS

REF: ACCRA 2307

Classified By: Ambassador Mary C. Yates for reasons 1.5 d and e.

Summary

11. (C) Post,s view of Ghana,s prospects over the next four years follows, and is in part based on the President's hour-long tour d'horizon with the Ambassador on March 9 and post-election conversations between Emboffs and key Ghanaian players. The political challenges ahead include increases in violent crime and ethnic/religious tensions, especially in the north, which the president underscored. Partisan political tensions will require careful management, as will neighboring regional conflicts.

12. (C) We expect broad continuity in President Kufuor's second term, with a greater focus on the economy. This is evident in the three biggest decisions to date of his second term: the deregulation of petroleum prices, his budget priorities, and some of his choices for key positions. Corruption remains the opposition NDC's rallying cry against the NPP and the President needs to move decisively against corruption if Ghana is to attract the foreign investment necessary for economic growth.

13. (C) Over the longer term, Ghana must boost economic growth to keep pace with a growing population and meet the aspirations of a population increasingly active politically. Ghana also needs to strengthen democratic institutions and to move from a dependency mentality to greater self-sufficiency. The USG will continue to play an important role through both civilian and military engagement. After decades of military dictatorship and economic decline, there is reason for optimism about Ghana's future. End summary.

Kufuor Two: The Government Sets Themes

14. (U) During President Kufuor's second term, he will try to consolidate the gains of his first four years by translating macroeconomic success into poverty reduction for the masses. In his meeting with the Ambassador, the President prioritized improving education, health care, infrastructure and private sector development as his biggest challenges.

15. (U) These themes were reflected in President Kufuor's February 3 State of the Nation address. The speech was largely a repackaging of the five priorities of his first term, but was focused, sensible and devoid of the partisan rancor of past State of the Nation addresses. Kufuor highlighted three priorities: 1) human resource development, 2) private sector development, and 3) a continued emphasis on good governance.

16. (U) On human resource development, he proposed some minor changes to the education system, stressed IT development, and committed to teacher training. For private sector development, he called for the creation of a new department in the Private Sector Development Ministry to promote the information business sector specifically. He also called for facilitated business financing, modernizing agriculture, and continued financial sector discipline. On good governance, Kufuor affirmed it as "the guiding principle which has underpinned all policies of this government." He highlighted past achievements: passage of Right to Information and Whistle Blower bills, initiation of a National Policy on Gender and Children, the creation of 28 new District Assemblies, and ongoing efforts to strengthen the police force.

Political Challenges

17. (C) Ethnic/religious tensions: President Kufuor

privately spoke of his deep concerns over the increasing "ethnic/religious" tensions, especially in the north (reftel). He associated growing "gangster and criminal" activities, especially in Kumasi, with an increasingly conservative Muslim population. He also alleged a "hidden hand" was orchestrating growing tension, and growing Muslim opposition to the NPP, alternately accusing foreign forces and/or former President Rawlings. He said that the NPP had lost in all the "zongos" (Muslim "ghettos") during the December election. From Accra to Kumasi and farther north, Muslims had listened to their Imams' encouragement to vote against the NPP. Later the President cited the growing influence of Iran in Ghana, especially in its successful outreach in building new mosques and health clinics.

18. (C) Kufuor explained that the upcoming April by-election near Kumasi would test the ethnic tensions and that the NPP was extremely worried about the results. Initially the NPP was running a respected female candidate, but retracted her candidacy after local Imams preached against her because she was a woman. Kufuor countered by recalling his Ambassador to Guinea, a Muslim from Kumasi, to represent the NPP in the election. Kufuor also lamented that most Muslims fail to give him and the NPP credit for the historic move of choosing a Muslim vice president. He said the Muslims did not seem to recognize the government's efforts to improve living standards in Muslim areas, pointing out that people in the north already receive free schooling. He expressed disappointment that the community's receptivity during his frequent campaign trips to the north, especially in the troubled Dagbon area, had not translated into votes. The President came close to accusing President Rawlings of the Dagbon Ya-Na's March 2002 assassination. (Note: During the second NDC demonstration against petroleum increase on March 17, President Rawlings suggested that Kufuor's government had a hand in the Ya-Na's killing. End note.) The Ambassador made the point that the inflammation and politicization of this northern ethnic problem in Ghana must be watched carefully, and pointed out problematic regional north/south trends from Cote d'Ivoire to Nigeria. (Comment: The north/south divide in Ghana is real, as are ethnic tensions in the north. However, we were surprised by the President's view of Muslims. Muslims vote overwhelmingly NDC because the NDC did a better job at courting them when they were in power than the NPP has since 2000. Muslims are frustrated by the small number of Muslims in Kufuor's Cabinet. Muslims also associate the NPP with the expulsion from Ghana of Muslims in 1969-71, under former President Busia. While there are small radical elements in the Muslim community, Muslim-Christian relations are generally good in Ghana. Kufuor's link of Muslims to a Rawlings or foreign plot is farfetched, but reflects the deep distrust between Kufuor and Rawlings. End Comment.)

19. (C) Managing Political Acrimony: Despite a very successful December 2004 democratic election, post-election partisan enmity has grown in the first few months of Kufuor II. The close election results (NPP 52.4% to NDC 44.6%) and poor showing of other small parties revealed a country divided. The NPP generally did well among urban, wealthier, more literate, more industrial and ethnically Akan voters, especially in the south, center and west. The NDC by contrast was strong among rural, lower income, less literate, Muslim and non-Akan voters, especially in the north and east. Neither major party gave significant prominence nor recognition to the growing youth population. Top NPP and NDC officials voice strong dislike for and suspicions of each other. Rawlings and Kufuor (as well as the NPP leadership) have exchanged sharp verbal attacks over the past few weeks, prompting some renewed public outcry for reconciliation between the two leaders in the interest of national stability, including a call for mediation by the National House of Chiefs.

110. (C) The NPP markedly improved its position in parliament and has assertively thrown its weight around, with support from the smaller opposition parties. The NDC has sought opportunities in parliament to embarrass the government. After an NDC walk-out during the selection of parliamentary leaders, the NPP got its way on all three top leadership positions, completely shutting out the NDC. The heightened intra-party tension is polarizing parliament, alienating some within the NPP, and sowing the seeds for possible delays in important legislation and more rancorous inter-party conflicts in the coming months.

111. (C) Keeping the Neighborhood Safe: Ghana will continue to work to guard against spillovers from regional conflicts, but it will be difficult for Ghana to avoid all consequences from the crises in Cote d'Ivoire on its western border and Togo to the east. In his State of the Nation address, Kufuor said the GOG would maintain a policy of "good neighborliness" in ECOWAS and Africa, while "strategic geopolitics" will prevail in the rest of the world. This will likely mean strong continued engagement in ECOWAS (and for African Union initiatives) and support for regional efforts, as well as

encouraging political reform in Cote d'Ivoire and Togo while not destabilizing or alienating either. Ghana may apply pressure behind the scenes, but in public it lets others lead (Thambo Mbeki in Cote d'Ivoire and ECOWAS in Togo.) Ghana's cautious pragmatism stems from its inability to effectively control its borders. Its 8,000 man military is overextended in peacekeeping operations and it lacks the means to capably man its borders for interdiction of narcotics, illegal weapons, or smuggling of goods and people. Ghana's civilian/diplomatic bureaucracy, including its Foreign Affairs Ministry, is also poorly staffed and not empowered to make decisions.

Economic Challenges

¶12. (U) Petroleum Price Hike: On February 20, the GOG increased the price of petroleum products, including a 50 percent jump in gas prices, and began to shift pricing to the new private-public National Petroleum Tender Board (reftel.) The GOG had postponed the price rise, which partially fulfills an IMF and World Bank commitment under HIPC, until after the election. Its decision to go ahead with it reflected a desire to continue with difficult economic reforms while taking advantage of a political honeymoon period. (However, in response to intense local opposition to price increases, the GOG subsequently decided to delay full implementation of petroleum deregulation, as required by the IMF.)

¶13. (U) The Budget: Citing the President's three priorities, Finance Minister Wiredu's February 24 budget raised the minimum wage, reduced the corporate tax rate by around 4 percent, and cut two other taxes by 2.5 percent. These tax cuts were bigger than expected, and should encourage savings and investment by those companies which actually file taxes.

¶14. (C) Appointments: Kufuor's appointments have stressed personal chemistry, continuity and, in many cases, basic competence. Among the (excessive in our view) 88 ministerial and deputy ministerial appointments, there were some surprises, most notably switching the Ministers of Finance and Education. The new Finance Minister, an accountant by education, has already demonstrated he intends to be deeply involved in and demanding of his ministry, by making helpful MCA preparation interventions. Kufuor also replaced several other key economic policy makers including the Ministers of Agriculture and Energy. The President confided to the Ambassador when discussing troubling FAA issues that the airport/airline portfolio had shifted from the Ministry of Transport to the Presidency under his watchful eye. Overall, the appointments do not appear to be especially impressive, nor are they merely political choices. It is too early to reach a considered judgment but our initial impressions are middle of the road, at best.

¶15. (C) Stemming Corruption: The Kufuor administration has a mixed record on corruption. While his "good governance" priority is encouraging, President Kufuor has not offered (or implemented) new ideas on how to diminish endemic corruption. The President stuck by three ministerial nominees whose vetting was held up because of alleged corruption (although he said their ordeal and the allegations caused him "anguish"). Parliament then announced it did not have the means to investigate corruption allegations against the nominees. Kufuor stays loyal to some other top officials who are longtime allies but known to be corrupt. In his second term, Kufuor may have an even more difficult time containing corrupt NPP politicians, as some may seek to feed at the trough before it is taken away, which may hurt the NPP in the 2008 elections. The NDC's primary 2004 election platform plank was NPP corruption, and it has already re-surfaced as a major issue in Parliament.

¶16. (SBU) Improving the Investment Climate: The Kufuor government has not put in place sufficiently investment-friendly procedures or policies. While the rhetoric is pro-market, the reality is often protectionist and statist, reflecting Ghana's socialist legacy. Foreign and domestic investors find that the GOG has difficulty making decisions and frequently lacks transparency in decisionmaking. Cote d'Ivoire's continuing unrest, coupled with the high price of cocoa, bring trade and hard currency opportunities to Ghana. But there is also an increase in Nigerian businesses, which import their style of corruption. The largest impediment to serious foreign investment remains the land tenure issue. As long as the Ghana's traditional chiefs remain the major land holders, modern Ghana cannot progress and economic growth can not take off as quickly as it should. The GOG's recent backtracking on further petroleum price increases and its cautious, bureaucratic approach to the MCA are examples of inconsistent and sometimes timid decisionmaking.

Implications for the United States

17. (C) Ghana will remain a strong partner for the United States across the full range of our Mission Program Plan goals, and we should take advantage of the political window offered by the first year of Kufuor's second term to further our objectives. The recent in-depth conversation between the President and Ambassador offered a good start and exchange on a number of these issues.

-- Building on growing concerns over north/south ethnic and religious tensions, post will continue to implement MPP goals through our Muslim outreach programs, and targeted USAID, Self Help, military humanitarian assistance and State Partnership Program (SPP) programs in the north. We believe we are making a real difference in public attitudes toward the U.S. and some gains in development and improved health.

-- This is an important time to strengthen Ghana's democratic institutions and law enforcement capabilities and reinforce anti-corruption messages. The Parliament has made great democratic strides, but the judiciary needs more reform and support. We are continuing our police and security training, and will make certain the GOG does not lose sight of the genuine requirements and responsibilities of a functioning democracy.

-- Our assistance to economic growth should include rapid conclusion of the MCA compact with Ghana. It is a win/win because of the focus on agribusiness and the significance of assisting with infrastructure development in a stable democracy in troubled West Africa. Infrastructure was cited several times by President Kufuor as one of his government's most urgent challenges to economic growth.

-- This first year of Kufuor II is important for supporting economic reforms, especially as they affect improving the investment climate and poverty reduction. President Kufuor may attend the Corporate Council for Africa conference in Baltimore in June and will likely attend the Glen Eagles G-8 meetings, offering opportunities for senior USG engagement on economic issues. The necessity for continued economic openness and for economic rule of law must be constantly reiterated.

-- We should look for ways to support President Kufuor's commitment to enhance human resource development through educational and IT opportunities and programs which stimulate the return of diaspora talents and resources from the U.S. -- We need to continue to work to consolidate and enhance Ghana's regional leadership role as a peacemaker and peacekeeper. Post will continue to recognize the professionalism of Ghana's military, which is heavily engaged in peacekeeping, through military-to-military programs, including the placement of a U.S. military officer at the Kofi Annan Center. The beginnings of our SPP with the North Dakota National Guard appear very positive at the moment. Further dialogue on the Gulf of Guinea initiative by U.S. military senior representatives will reinforce growing USG interest in the region.

-- An invitation to President Kufuor to join a small group of democratic African leaders in a meeting with President Bush (possibly to coincide with CCA Baltimore conference timing) would provide positive reinforcement for Ghana's accomplishments.

Comment

18. (C) President Kufuor is off to a reasonably strong start in his second term. He moved forward with petroleum deregulation and a solid budget, and has set out clear priorities. His team is experienced, although he missed an opportunity to reduce the size of his bureaucracy and replace some poor performers. The opposition is acting responsibly and Kufuor's style is methodical and steady rather than innovative or bold. We do not expect major surprises in the next year. President Kufuor has about one year before the jockeying for succession within his party heats up in a way which could substantially distract from policy making. Backed by a recent election victory and his party's improved strength in parliament, the central question will be how effectively Kufuor uses this year to push forward with economic reform. However, the pace and success of this effort will depend in large measure on his ability to manage growing north-south tensions, assuage intra- and inter-party friction, broaden his ethnic appeal, contain corruption, and insulate Ghana from the spillover of regional conflicts. Former President Nkrumah may have forged a national consciousness at Independence that transcended ethnic considerations, but it may take Kufuor's coalition-building leadership to continue to keep the Ghanaian fabric together

as 2008 approaches.

19. (C) Kufuor's second term will have a significant impact on Ghana's longer term outlook. When Ghanaians are asked about the future, they typically look to the past and remark on how far Ghana has come over the past twenty years, especially in transitioning from military dictatorship to democracy. A majority genuinely like Kufuor and believe they are better off now than they were under Rawlings. Political leaders are risk averse and focused on the short term, with little sense of vision for the next decades. Over the longer term, Ghana needs to make significant progress in economic development. It desperately needs to diversify its economy to reduce its current vulnerability to cocoa and gold price shocks. It needs to boost investment to create jobs for its youthful population (50% of Ghanaians are under age 18 and the population is predicted to increase by 50 percent by 2025). Ghana needs to accelerate beyond a 4-5 percent growth path, which will require improvements in infrastructure and the investment climate. The main political challenge of the next decade will be consolidating democracy and forging a stronger sense of national unity. Some of this may take constitutional change -- for example, selecting local District Chief Executives through elections rather than by appointment and reducing the percentage of ministers who are also members of parliament. With economic and political development, Ghana can move from an entrenched dependency paradigm, and the international community can shift from a predominantly aid/debt relief relationship increasingly to a partnership based on trade and Ghanaian leadership in the world community. None of this is inevitable but in Ghana, more than in many African countries, there is good reason for optimism.

LANIER